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# HALTING AMERICAN DEVELOPMENT

BY WILLIAM McCLELLAN

AMERICA'S machinery for production and distribution is badly dislocated. This is a patent fact. Factories there are in abundance. The amount of skilled and semi-skilled labor has been greatly increased by the war impetus. The proportion of gold held in this country is greater than ever. But there is a startling condition of ineffectiveness in much of the industrial world. There is a foreboding inconsistency in the staggering collapse of transportation and other utilities, while investors of the country have been plunging into industrials. There is reason to fear that the foolish and shortsighted antagonism of the shippers against the railroads has done more than interrupt mere money-making. The present exhortation to boom foreign trade and investments arouses misgivings, under the circumstances. What is the real state of the country, and what may be expected? The readjustment in wages and prices now under way, with the consequent halt in production due to the uncertainty in the minds of buyers as to final price levels, has not destroyed the illusion of general prosperity. The average American believes that the industrial machine has merely stopped for minor adjustment and will soon be humming again. Can it be possible, then, that America's national and local development is menaced?

Immigration, huge in amount and various as to races, was the outstanding feature of the development of the United States in comparison with other new countries. Hardly less important was the order in which the races came, first from northern Europe, then southern, and finally eastern. During a century and a quarter, this immigration was a magnificent contribution of human wealth brought to maturity at the expense of Europe. It provided an abundance of labor full of enthusiasm, ready and willing to do any amount of hard work. These human units

were not assimilated, however, without adding vital qualities to American character. That character, hybrid though it is, acquired a powerful individuality, is able to reproduce itself, and has made the development of America possible.

The first menace to our continued advance arises from the possibility that this flow of immigration will be permanently diminished. Certainly Europe needs all of her man power, and no clear-thinking American will even hope that the men and women of Europe will be willing to forsake wantonly their native lands for the loaves and fishes which may possibly be for their taking in America. But constant additions of raw labor are indispensable for America. Recent reports show a very satisfactory increase in immigration even approaching the big inward flow of the past and perhaps sufficient. There is unenlightened talk of stopping immigration when what is needed is intelligent regulation. Suppose every immigrant were compelled by law to disembark—or perhaps more accurately, detrain—at some middle western city. In any case we shall be face to face with a new situation in labor, and American inventive ability may have to prove itself anew.

The peculiar faith of the American in the future of his country has been a controlling factor. This faith has been backed by unlimited investment of time, energy, and money. Men have been willing to invest and to keep on investing in situations where other types of minds would have been discouraged quickly. Railroads were thrown from one ocean to the other, over wide stretches of totally unoccupied country and scaling two mountain ranges purely on faith in national growth. Similarly, because of this peculiar national character, electric lighting and gas plants, electric railways, telegraph and telephone lines, were established in places where there was little but faith in the future to warrant them. As a result, these instruments of national development are more extensive and more generally distributed in this country than anywhere else in the world. It is not to be denied that much of it was ill-timed and ill-placed. But there was progress; and while individuals here and there suffered enormous losses, the country as a whole gained a magnificent advantage.

Pioneer days are over, however, and conservatism might reasonably be expected. Natural resources have become private resources chiefly. Losses of the past have made investors more critical. Lines of development have been marked out and locations for enterprise have been extensively preempted. Development, of necessity, must become more orderly, more coöperative, more controlled. But, unfortunately, conservatism has an easy facility for skepticism and consequent stagnation.

Investments are made because of faith in what the future offers. The workman invests his time and money in learning a particular trade, and the student chooses particular courses, because they believe that conditions as they see them promise adequate satisfaction and reward in the fields for which they are fitting themselves. And so with the investor of money. His money flows inevitably in the direction of expectant reward, and it flows in proportion to the attractiveness of the estimate. There is no sentiment about the dollar, and there is no investor more canny and more expectant, so far as returns are concerned, than the American investor.

The essence of our larger politics, therefore, must be to maintain conditions so that the individual American will enthusiastically and willingly make his investment of money, time and energy in order to keep up our national and local development. Is there any danger that we shall halt or stumble?

The plain fact is that some parts of our industrial and commercial machine for production and distribution have been growing at the expense of other parts. Production has gone ahead by leaps and bounds, while distribution has been neglected. In the good old days it was nonchalantly assumed that the railroads would be there, ready to function adequately, at any time. Industry ignorantly looked upon them as more or less private, competing enterprises. There was no realization that their success and adequate upkeep were just as vital to manufacturing and commerce as if they were owned in fee simple by the plants and people they served. The whole country, therefore, is alarmed at their present critical condition. But it is not so well known that quick recovery is impossible, and that genuine recovery has not even started,—is hardly in sight. The best evidence of

this ignorance of the real situation is the hopelessly inadequate and hampering Esch-Cummins Railroad Bill.

What is even more alarming is that the country may not perceive the effect on national development of this hardening of the arteries of trade. Although not so evident, the situation of the railroads is reproduced in every other public utility. They cannot compete with industry for money, and they cannot compete with industry for men. Money is to be had, of course, for a price, and with ample security. But those controlling the utilities can pay this price only so far as it is necessary to maintain what they have. They cannot pay it for development purposes. Large industrial concerns all over the country can pay for cars at any price,—passing this cost on to the consumer. Can a transportation system be healthy, can it be expected to develop, when the cars it cannot afford to buy are readily bought and owned privately by its industrial customers?

A few figures will illustrate the point. Pre-war cost of money averaged five per cent, and is now upwards of eight per cent, or one and one-half times as much. With this expensive money, the railroads and other utilities have been paying the industrials two and one-half times as much for equipment. Operating costs have been three times as much. These capital and operating costs will undoubtedly fall—they have fallen somewhat already but the fall will have to be great indeed to restore equilibrium. No one really expects it. Concretely this means that a new company would need rates three or four times the pre-war rates. In the present state of the public mind such rates are not possible, so there will be no new companies, and old companies will restrict growth as much as possible. That is, there will be no increase in facilities,—no development. Ponder on the conditions of the railroads which are allowed five and one-half per cent return by Congress, yet must pay seven and one-half per cent for money. How pushing will any utility be which is allowed to earn eight per cent and must pay nine per cent for the money? It cannot even trade dollars. And yet these utilities are the hands and feet of manufacture and trade.

No one should be misled into calling the recently expanded industrial capacity a satisfactory national or local development.

It is not prosperity, when analyzed. Manufacturing capacity is properly increased to use available labor. This fundamental rule has been outrageously broken. Millions of dollars have been put into manufacturing plants since the war, when it could be demonstrated clearly that every bit of labor in the country was at work. Managers had to bid for labor at any price. Whatever they had to pay could be passed on to the consumer in the selling price of the goods. The result is that the farmer, the public utilities, the highways and other municipal activities have had their labor bid away from them by industrials which had no right, on any economic basis, ever to have been started. The outcome has been clear to everyone who has had open eyes. The turnover in industrial employment has been enormous. Strikers no longer waited for their demands to be met,—frequently they made no demands,—but were immediately at work elsewhere at higher pay. In the switchmen's strike no rate of pay possible to the railroads would have brought the men back from their highly paid industrial jobs. The reflex is coming. Already we hear the industrial world wondering how it is to make use of the excess of factory capacity. The public rebels at continued high prices and refuses to buy. Unemployment of labor is on its way. Liquidation of overstocks has started everywhere. But the headway is too great, and there is no way of letting go suddenly. Development has halted, and the greatest problem before the country to-day is the readjustment of its commercial and industrial machine in all its parts. Our so-called "prosperity" is like a weed with an enormous flowering growth but a very inadequate root system.

Examine for a moment the resounding call for foreign investment. It is partly selfish and partly humanitarian. In so far as it is the latter, it must be furthered, but the selfish part—by no means the smaller—is a menace. Unquestionably America has financial responsibilities in Europe, but only the wisest and best-informed minds should direct them. As a matter of fact, if all our available funds for investment were applied at home, there would still be required a very long time to get the industrial, utility, and municipal situation in the United States properly arranged. Moreover, this country, rich as it may seem, is not

yet a lending nation, for it is not a saving nation. Its so-called capital is misleading. Its real wealth is its productive and distributing power and this is badly crippled. With a consistent purpose to help the world at large, it should first of all bring this power to a maximum.

The dislocation of coal production and distribution is another disturbing factor. Coal is at the very basis of civilization. To every industry it is of extraordinary importance, but to the electric power and gas companies it is the raw material out of which they make their products. Within the last year there has been a mad scramble for coal. Those who had the money could get it. Bidders have occasionally gone to the mines and laid down checks for the operators to fill in as they pleased. Those who have had plenty of money to spend, and particularly those who could pass all their costs on to consumers in the selling price of goods, have been able to outbid the utilities and others whose pockets were shallow. It is generally conceded that had there been adequate car supply for all mines desiring to operate, there would have been no coal crisis. But car supply will not fully stabilize the coal business that has never been organized for production.

Someone has said that America cannot proceed now, any more than it could in 1861, half-slave and half-free. Industrials and utilities must march in even step. Both must draw from a common fund of labor and money, to which coal may be added as a third. The progress of the utility is a measure of the development in the nation and in the locality. The industrial plant is isolated from labor, raw material, coal and customer unless connected to them by an adequate group of utilities. The self-interest begot of earnings in the utilities is very small, whereas the self-interest measured by earnings in the industrial is to a certain extent unlimited. The decision is plain. If America is to maintain its progress and development, these utilities upon which all business and social activities depend for necessities and conveniences must be placed so that they are not at a disadvantage in the competition for labor, money, and coal.

The hands and feet of the industrials must be freed. The restraint comes through regulation of the utilities in competition

with unregulated industrials. Some would abolish all regulation, and let "good old competition" solve the difficulty. Others would increase regulation and extend it to the industrials. Still others would have government ownership and operation. Where do prudence and discretion lead?

Recently a prominent member of the coal business, speaking before a large group of public utility operators, took the position that regulation ought to be abolished, evidently thinking that he would strike a responsive chord in the minds of public utility men. No one was ever more mistaken. To a man, they rejected any such proposal, openly expressing the opinion that whatever difficulties regulation may have caused, absence of regulation would be worse. They knew that for centuries "public servants" had been subject, as they expressed it, to the "wolves of local regulation". The utility men were inhospitable enough to their speaker to suggest regulation of the coal industry. State regulation of public utilities, with its removal of the issues from the sphere of local jealousies and partialities, has been sufficiently a success in this country to cause those most interested to fight for it. Unregulated private ownership and operation are unthinkable. They would be retrogressive.

Regulation is not a failure. It has been hampered sometimes by commissioners who have apparently lacked courage. Usually, however, they have been responsive to the popular demand. Regulatory legislation has been extraordinarily full of retarding and restricting detail. Apparently it has been passed on the theory that commissioners were not to be trusted. Regulation, to be successful, must be as free from legislative and popular shackles as are the courts. Pay and tenure of office must be attractive to the highest type of administrators. Laws and men must provide a maximum of supervision and a minimum of management. The men must be respected and trusted by the legislature and the people.

We are in our present chaos because large-minded regulation has been absent. Somehow, because of popular and official prejudice, the object of regulation has seemed to be restrictive instead of constructive. In forming the prejudices, history has had a large part. Huge profits have been made by so-called

magnates. These men did rob the properties in various ways; they did raid the stock markets; but they got their great rake-offs only in these ways, for the profits from legitimate operation of utilities have always been small. Under regulation these profits can never be excessive. The theory is that regulation will add security and stability to the financial condition of utilities, and that a lower rate of return on the investment is justified. Regulation will be a failure until it does accomplish this constructive end; until it becomes an insurance to both public and utility. Regulation, under the law, is in control of the utilities, and, therefore, regulation carries a heavy and positive responsibility to strive for their success.

The recent rate increase granted by the Interstate Commerce Commission indicates a change for the better. There is apparently some realization of the Commission's true function and evidence of more courage. The shippers are now both intelligent and reasonable. But the labor problem is untouched and as uncertain as ever. Moreover, the material improvement is woefully inadequate for the needs. The problem is far from solved, but the outlook is much more hopeful. This is shown particularly in the reports that the commission is hard at work on plans for coördination and consolidation of lines.

Government ownership and operation must not be resorted to for the single reason that regulated private ownership has failed so far. Could the Government, unless it takes to itself peculiar advantages, do more than go into the coal market and compete with other bidders for coal? Time and again it has been proved that the Government cannot buy for a lower price than others. Unless the Government chooses to make up deficits by taxation of the whole people instead of those who use the railroads, and unless it neglects public improvements, which have heretofore been regarded as more properly within governmental purview than the operation of utilities, would it be able to get money at any lower rate? With the Government as owner and operator, is it to be expected that modern, enlightened, railroad workers will accept less than they would from private owners? The question of government ownership and operation must be decided on other grounds than these. It must be expedient for other and better reasons.

Few modern thinkers will consent to a wholesale condemnation of government ownership and operation. Theoretically, the Government can do as well as any private owner. The honest-minded citizen will recognize that government ownership and operation mean a radical and more or less violent change in governmental functioning. The question is first of all one of political science, and then as to whether or not political conditions promise success. One aspect is plain: whether the Government or the private owner operates, success will come only if receipts cover all genuine costs and provide an incentive to enthusiastic and efficient service.

The social organization cannot forever dodge the labor issue. Sooner or later a definite policy must be adopted. The Esch-Cummins Bill prevents a sudden, organized strike, but its futility is demonstrated by the recent "runaway strikes". Moreover, the strike is being condemned in favor of various forms of sabotage. The fact is that the very complicated, highly organized, railroad machine cannot be operated except by the army of more or less skilled workers, and the workers know this. They have learned their strength and are learning how to use it as subtly as may be necessary to attain their ends. They are the railroad magnates of to-day, and need just as much attention as did the financial magnates of a generation ago. It is folly to talk of their being reasonable and abating excessive demands. History records no group in power as ever having done so. As an example, capital has been giving numerous exhibitions of the most excessive demands—in its profiteering—that the world has ever seen, or at least has seen since the days of the robber-barons. Labor is entitled to a just wage, whether it works for an industrial or a utility; but just as utility-capital had to be regulated so that no advantage could be taken of its peculiar position, utility-labor must be regulated for the same reason.

Someone will say that the present dislocation is temporary, a result of the war, and will soon correct itself. This would be comforting if it were true, but it is not. In their weakened condition, the railroads and other utilities have had greater burdens than ever put upon them and must go staggering on. The management has been harassed and condemned so long that

*esprit de corps* is weakened. They have been fenced in and hobbled while they watched their fortunate industrial brothers running free and untrammelled. Further neglect will extend the damage in an increasing ratio. Radical treatment is necessary.

In the country districts years ago, when highways became nearly useless through lack of maintenance, everyone in the neighborhood stopped all private tasks and "worked on the roads". They did this because they had learned how dependent they were on usable roads. Somehow the public of to-day must get the same attitude toward their utilities.

The public mind is not yet fully informed on the real situation. This was proved by the numerous comments made by the man on the street when the recent rate increases were announced. There is a definite, even though subconscious, lack of faith in utility managements. They are like the dog that has earned a bad name in its youth. The average citizen refuses to distinguish between the exploiting banker-management of the past and the more enlightened technical management of the present. So long as this misunderstanding exists, there can be no hope of a real recovery. The public mind must be changed so that it will trust those who direct its instruments of development.

Utility men have a heavy responsibility, but not the entire one. They can do little except by exemplary conduct. The difficulty is the occasional black sheep who does more damage to the public mind than can be corrected by the faithful service of a thousand righteous men. The greatest task before the utility men to-day is to become willing to drive this man from the field before he accomplishes his vicious purpose,—and any man who is in the business to make money by exploitation, robbery of properties, or in any other way than by legitimate, efficient operation, is there for a vicious purpose. Right living will make it possible for publicists, newspapers, and magazines to enlighten the mind of the people so that a fair deal can be had. The development of America will stop marking time, and will march,

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